

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6131

BILL NUMBER: HB 1115

DATE PREPARED: Jan 4, 1999

BILL AMENDED:

SUBJECT: College Savings Tax Credit.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(3,600,000)	(7,000,000)
State Expenditures			
Net Increase (Decrease)		(3,600,000)	(7,000,000)

Summary of Legislation: (Revised) (1) This bill would provide an income tax credit for a taxable year in which a taxpayer deposits family college savings into the Indiana Family College Savings Trust Fund (the Fund) through an individual trust account for a dependent.

(2) It would provide the taxpayer a refund match in the amount of the income tax credit (income tax credit refund match), paid into the individual trust account of a dependent, by the Department of State Revenue. It would make the income tax credit refund match nontaxable, and would subject the taxpayer to a penalty for withdrawals in the amount of the credits granted (excluding any earnings on the amount deposited) of income tax credit refund match monies from the Fund that are not used for an allowable purpose of the Fund.

Effective Date: January 1, 1999 (retroactive); January 1, 2000 (retroactive).

Explanation of State Expenditures: (Revised) (1 & 2) There would be some administrative costs for the Department of Revenue to revise tax forms, instructions and computer programs to implement the provisions of this bill. The Department of Revenue would be directed to implement the income tax credit provision of this bill, and would be directed to deposit income tax credit refund matches into the individual trust account of a dependent into which taxpayers make a deposit of family college savings.

There would also be some indeterminable administrative costs to the Indiana Commission for Higher Education (ICHE) and to the contractor of the Fund.

Explanation of State Revenues: (Revised) (1) This bill would provide an income tax credit to a taxpayer who makes a deposit into the Fund's individual trust account for the taxpayer's dependent. The amount of the credit would be equal to the lesser of 50% of the deposit or \$250 per dependent (the credit may not exceed the taxpayer's adjusted gross income tax liability). If the credit exceeds the taxpayer's liability, the excess may be carried over to the immediately following three taxable years in order to obtain subsequent income tax credits.

Income tax credits would reduce revenue to the State General Fund.

(2) The income tax credit refund match would be deposited into the Fund's individual trust account by the Department of State Revenue, and would be exempt from state income tax. If withdrawals of income tax credit refund match monies are made on an individual trust account, and are not used in conformity with the purposes of the Indiana Family College Savings Trust Fund, the taxpayer would be subject to a penalty in the amount of the credits granted, excluding any earnings on the amount deposited.

The Indiana Education Savings Authority would be allowed to withhold the penalty and the direct payment of the penalty to the Department of State Revenue. In addition, the Department of State Revenue would be allowed to adopt rules waiving the penalty in the case of hardships or special circumstances affecting the owner of the individual trust account).

NEW ACCOUNT PROJECTIONS

Based on an ICHE analysis of other college savings programs in the country, it is estimated that Indiana's program (with a 50%; \$250 maximum per year incentive) will take approximately four years before it reaches its maximum participation of approximately 5000 new accounts each year. To date, there has been a total of approximately 2,500 accounts established for the Fund. Of this amount, 607 were established in CY 1997, and 1,893 were established in CY 1998.

Based on the assumption that the number of new accounts would increase by 3,107 in CY 99, 2,000 in CY 2000, and then decrease to remain constant at approximately 5000 new accounts beginning in CY 2002 and thereafter, approximately \$1.8 million could be deposited into the Fund's individual trust accounts during FY 2000, and approximately \$3.5 million during FY 2001 for total accounts in the Fund. This assumes that the maximum contribution will be made to generate the maximum state match.

ICHE's analysis includes all kindergarten to 12th grade students, assumes the maximum match, adjusts for accounts abandoned or terminated early but does not account for any recaptured credits.

REVENUE SUMMARY

In general, this bill would provide a maximum income tax credit of \$250, as well as a matching cash incentive to taxpayers who deposit \$500 into an individual trust account of the Fund.

For FY 2000 and FY 2001, respectively, the State would experience a net revenue decrease of approximately \$3.6 million (\$1.8 million * 2) and \$ 7.0 million (\$3.5 million * 2) for the income tax credit and income tax credit refund match provisions of this bill.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: The Department of Revenue, Indiana Commission on Higher Education.

Local Agencies Affected:

Information Sources: Kent Weldon, Indiana Commission on Higher Education (464-4400).